

CENTRAL BANK

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President

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April 5, 2004

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Attention: Docket No. R-1180

Dear Ms. Johnson:

As a community banker, I greatly welcome the regulators' effort on the critical problem of regulatory burden. Community bankers work hard to establish the trust and confidence with our customers that are fundamental to customer service, but consumer protection rules frequently interfere with our ability to serve our customers. **The community banking industry is slowly being crushed under the cumulative weight of regulatory burden, something that must be addressed by Congress and the regulatory agencies before it is too late.** This is especially true for consumer protection lending rules, which though well intentioned, unnecessarily increase costs for consumers and prevent banks from serving customers. While each individual requirement may not be burdensome itself, the cumulative impact of consumer lending rules, by driving up costs and slowing processing time for loans from legitimate lenders, helps create a fertile ground for predatory lenders. **It's time to acknowledge that consumer protection regulations are not only a burden to banks but are also a problem for consumers.**

Right of Rescission. **One of the most burdensome requirements is the three-day right of rescission under Regulation Z.** Rarely, if ever, does a consumer exercise the right. Consumers resent having to wait three additional days to receive loan proceeds after the loan is closed, and they often blame the bank for "withholding" their funds. Even though this is a statutory requirement, inflexibility in the regulation making it difficult to waive the right of rescission aggravates the problem. If not outright repealed, depository institutions should at least be given much greater latitude to allow customers to waive the right.

Regulation B creates a number of compliance problems and burdens for banks. Knowing when an application has taken place, for instance, is often difficult because the line between an inquiry and an application is not clearly defined.

Spousal Signature Another problem is the issue of spousal signatures. The requirements make it difficult and almost require all parties - and their spouses - come into the bank personally to complete documents. This makes little sense as the world moves toward new technologies that do not require physical presence to apply for a loan

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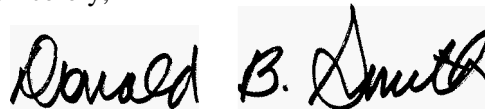
Adverse Action Notices. Another problem is the adverse action notice. It would be preferable if banks could work with customers and offer them alternative loan products if they do not qualify for the type of loan for which they originally applied. However, that may then trigger requirements to supply adverse action notices. For example, it may be difficult to decide whether an application is truly incomplete or whether it can be considered "withdrawn." A straightforward rule on when an adverse action notice must be sent - that can easily be understood - should be developed.

Exemptions. The HMDA requirements are the one area subject to the current comment period that does not provide specific protections for individual consumers. HMDA is primarily a data-collection and reporting requirement and therefore lends itself much more to a tiered regulatory requirement. **The current exemption for banks with less than \$33 million in assets is far too low and should be increased to at least \$250 million.**

The volume of regulatory requirements facing the banking industry today presents a daunting task for any institution, but severely saps the resources of community banks. **We need help immediately with this burden before it is too late.** Community bankers are in close proximity to their customers, understand the special circumstances of the local community and provide a more responsive level of service than megabanks. However, community banks cannot continue to compete effectively and serve their customers and communities without some relief from the crushing burden of regulation. Thank you for the opportunity to comment on this critical issue.

It costs Central Bank over 1% of our operating profit to mail the annual privacy notice. Doesn't it make sense to have the notice available for the asking instead of filling up our customer's wastebasket?

Sincerely,

A handwritten signature in black ink that reads "Donald B. Smith". The signature is written in a cursive, flowing style.

Donald B. Smith,
President

DBS/kt